

**FISCAL NOTE**  
**HB 07 - SB 12**  
**FIRST EXTRAORDINARY SESSION**

April 1, 1999

**SUMMARY OF BILL:** Extends the franchise and excise tax law to the following business entities that are currently not liable for the franchise and excise tax: limited liability corporations, limited liability partnerships, proprietorships, professional LLC's, partnerships, and any other organization or entity engaged in business in Tennessee. Under existing law, the excise and franchise taxes apply only to corporations. The excise tax is a 6% tax imposed on the net earnings of a corporation. The franchise tax is 25 cents per \$100 of a corporation's issued and outstanding stock, surplus, and undivided profits or property. The bill would also classify a foreign or domestic LLC as a corporation taxable as a for-profit corporation for the purposes of state and local taxes. Under present law, a foreign or domestic LLC is treated as a partnership or an association taxable as a corporation for purposes of state and local taxes.

**ESTIMATED FISCAL IMPACT:**

**Increase State Revenues - \$450,000,000**

**Increase State Expenditures - Dept. of Revenue:**

**Exceeds \$3,000,000 Recurring**

**Exceeds \$2,000,000 One-Time**

Estimate assumes the following:

- Bill contains no earnings exemption levels for any business entities.
- Partnerships will distribute a significant amount of earnings to partners reducing their net earnings for excise tax purposes significantly.
- Sole proprietorships will pay the 6% excise tax on most net earnings.
- Bill eliminates the use of pass through entities as a method to evade franchise and excise taxes.
- An increase in state expenditures in excess of \$5,000,000, in the Department of Revenue, resulting from implementation of a new tax structure.

**CERTIFICATION:**

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.

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A handwritten signature in black ink, reading "James A. Davenport". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

James A. Davenport, Executive Director